

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

CLASSIFICATION AND FEES FOR WEIGHT-AVERAGED
NONLETTER-SIZE BUSINESS REPLY MAIL, 1999

Docket No. MC99-2

**UNITED STATES POSTAL SERVICE NOTICE OF ERRATA TO
THE DIRECT TESTIMONY OF WITNESS JAMES KIEFER (USPS-T-4)
(April 26, 1999)**

The United States Postal Service hereby gives notice that today it is filing errata to the Docket No. MC99-2 direct testimony of witness James Kiefer (USPS-T-4).

As indicated in the April 22, 1999, status report concerning negotiations in Docket No. MC99-1, some minor errata in the confidential workpaper of Docket No. MC99-2 witness Leslie Schenk were identified during the April 20, 1999, technical conference. That status report also indicated that the errata were likely to have minor downstream ripple effects in the direct testimony of Docket No. MC99-2 witness James Kiefer (USPS-T-4), but would not affect the permanent fees proposed by witness Kiefer.

Attached to this notice are a list of specific errata and revised pages to USPS-T-4, which reflect the downstream effect of the correction of the confidential workpaper. These attached revised USPS-T-4 pages supersede the pages which were originally filed with the Commission on March 10, 1999, and served on the parties upon intervention.

Docket No. MC99-2

USPS-T-4 Errata

Page Line

Change

16	8	"\$0.0054" to "\$0.0055"
	8	"\$479.72" to "\$503.35"
	fn. 6, line 3	"\$442.82" to "\$464.63"
	fn. 6, ln. 3	"\$479.72" to "\$503.35"
21	19	"1.40 million" to "1.39 million"
22	13	"\$148,643" to "\$153,342"
	14	"\$148,643" to "\$153,142"
	14	"160" to "155"

Exhibit 4A

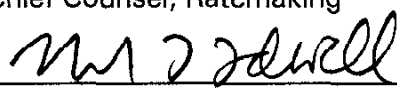
[Changes are shaded]

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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April 26, 1999
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1 would be more in line with the reduced costs associated with weight averaging.
2 In some cases, the time savings from implementing weight averaging also may
3 provide the additional benefit of allowing customers to receive their BRM sooner
4 in the day.

5

6 **B. Relationship of Fees to Costs.**

7 Witness Schenk has estimated the unit accounting cost for using weight
8 averaging to be \$0.0055 per piece, and has estimated fixed costs of \$503.35 per
9 month.⁶ As reported above in Table 1, I propose a per-piece fee of \$0.01 and a
10 monthly fee of \$600. The Postal Service's proposed fees more than adequately
11 cover the attributable costs of counting and rating mail using the weight
12 averaging methodology and make a reasonable contribution toward institutional
13 costs. I discuss cost coverage further in Section VI.

14 We believe that the cost coverage produced by these fees is reasonable. In
15 Section VI of my testimony, I examine the likely impacts of this new classification
16 on the Postal Service's revenues and costs.

17

18 **C. Potential Savings to Customers.**

19 Based on the proposed fee structure, we estimate that any customer
20 receiving at least 103,000 pieces of nonletter-size BRM per year will save money

⁶ This assumes that the participating post office will sample 10 sacks per accounting period (rather than 20, as is being done during the experiment). To convert accounting period (AP) costs to monthly costs, multiply by 13/12: $(\$464.63 \text{ per AP}) \times (13 \text{ AP}/12 \text{ mo.}) = \$503.35/\text{mo.}$ Costs for the 10-sack sampling rate used here are taken from USPS-T-3, Table 4.

1 weight averaging methodology and fees. It also presents two plausible
2 alternative scenarios for purposes of illustration: one with more mail and more
3 customers taking advantage of the new fees, and one with fewer customers and
4 mail.⁹ Exhibit USPS-4A shows that if all of the mail identified by witness Ellard
5 switches to weight averaging (Scenario 1), the Postal Service's revenue would
6 decline by approximately \$1.03 million. Scenario 1 also shows that using weight
7 averaging to account for their BRM would save the Postal Service about \$1.13
8 million in costs, when compared to manual accounting, offsetting the decline in
9 revenue.¹⁰ Whatever the offset, the revenue impact of the new classification
10 remains a small part of the Postal Service's revenue requirement.

11 Exhibit USPS-4A also shows two alternative scenarios for comparison.
12 These scenarios are not predictions, but represent hypothetical situations
13 designed to illustrate the impacts on the Postal Service's revenues and costs, if
14 customers and volumes were to turn out to be significantly higher than our
15 market research indicates (Scenario 2), or if customers and mail volumes were to
16 be significantly lower (Scenario 3).

17 In Scenario 2, I have assumed that 20 customers with 20 million pieces of
18 nonletter-size BRM opt for the new fees. Exhibit USPS-4A shows that revenues
19 decline by about \$1.26 million and costs decline by about \$1.39 million. In
20 Scenario 3, I examine a hypothetical case in which only five customers receiving

⁹ I believe that it is highly likely the number of customers and mail volumes identified by the market research will take advantage of the new permanent weight averaging fees. Nevertheless these two alternative scenarios are presented to show that the fees proposed are robust over a wide range of customers and mail volumes.

¹⁰ To the extent that the sites and customers now participating in the experiment decide to continue to use the weight averaging methodology and fee structure, the revenue and cost impacts will be lower.

1 10 million pieces opt for the new fees. The revenue decline in this case is only
2 approximately \$0.66 million, while costs fall approximately \$0.73 million.

3 In none of the three scenarios do the revenue reductions become excessive,
4 and in each case there will be offsetting cost reductions because the Postal
5 Service will not have to rate each piece individually. Additionally, the sensitivity
6 analysis illustrated in Exhibit USPS-4A shows that, over a wide range of possible
7 levels of use of the new fees, there is no significant financial impact on the
8 Postal Service.

9
10 *Cost coverage.* The Postal Service believes that Scenario 1 represents the most
11 likely level of initial demand for the new fees. Exhibit USPS-4A shows that
12 employing weight averaging to rate this mail and charging the proposed fees for
13 this service produces annual revenues of \$237,200 and costs of \$153,342. This
14 yields a cost coverage of $(\$237,200/\$153,342)$, or 155 percent which compares
15 with the 155 percent cost coverage for all mail and services recommended by
16 the Commission in Docket No. R97-1 (Op. Appendix G Schedule 1). The Postal
17 Service believes that the proposed weight averaging fees produce a fair and
18 equitable cost coverage.

19

20 **B. Impacts on Other Postal Services.**

21 All BRM currently travels as First-Class Mail or Priority Mail. Establishing a
22 new weight averaging classification will not change this requirement. Our survey
23 has not uncovered any significant interest among mailers to convert non-BRM

Docket No. MC99-2 Exhibit USPS-4A: Revenue and Cost Impacts									
Revised 4/26/99									
		Number of Sites	Eligible BRM Volume (Millions/r.)	Annual Revenues			Annual Costs		
				Proposed Fees	Current Fees	Change	Proposed Methodology	Current Methodology	Change
		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
Scenario 1: Survey-Based Customers and Volume		11	15,830,000	\$ 237,200	\$ 1,264,000	\$ (1,026,800)	\$ 153,342	\$ 1,282,960	\$ (1,129,618)
Scenario 2: Higher Demand for the New Fees		20	20,030,000	\$ 344,000	\$ 1,600,000	\$ (1,256,000)	\$ 230,804	\$ 1,624,000	\$ (1,393,196)
Scenario 3: Lower Demand for the New Fees		5	10,030,000	\$ 136,000	\$ 800,000	\$ (664,000)	\$ 85,201	\$ 812,000	\$ (726,799)
Assumptions									
Piece-by-Piece Fees and Costs Per Piece Fee \$ 0.08 [9] Per Piece Costs \$ 0.0812 [10]									
Weight Averaging Fees and Costs Per Piece Fee \$ 0.01 [11] Monthly Fee \$ 600.00 [12] Per Piece Cost \$ 0.0055 [13] Monthly Cost \$ 503.35 [14]									

Notes

- [1] Scenario 1: USPS-T-2, page 8
 Scenario 2: Assumed values
 Scenario 3: Assumed values
 [2] Scenario 1: USPS-T-2, page 8
 Scenario 2: Assumed values
 Scenario 3: Assumed values
 [3] [1] * [12] * 12 + [2] * [11]
 [4] [2] * [9]
 [5] [3] - [4]
 [6] [7] * [14] * 12 + [2] * [13]
 [7] [2] * [10]
 [8] [6] - [7]
 [9] Regular BRM Advance Deposit per piece fee (DMCS Fee Schedule 931)
 [10] Estimated by Leslie Schenk using methodology of R97-1 Exhibit USPS-27D, revised 3/4/99
 [11] USPS Proposal: USPS-T-4, page 13
 [12] USPS Proposal: USPS-T-4, page 13
 [13] USPS-T-4, page 16
 [14] USPS-T-4, page 16

CERTIFICATE OF SERVICE

I hereby certify that a copy of this pleading has been mailed today to each party of record in this proceeding in accordance with Rule 12 of the Commission's Rules of Practice and Procedure.

A handwritten signature in black ink, appearing to read "Michael T. Tidwell", is written over a horizontal line.

Michael T. Tidwell

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